



October 10, 2011

Chairman Julius Genachowski
Commissioner Michael Copps
Commissioner Robert McDowell
Commissioner Mignon Clyburn
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: America's Broadband Connectivity Plan, WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 07-135; WC Docket No. 05-337; CC Docket No. 01-92; CC Docket No. 96-45; WC Docket No. 04-36; GN Docket No. 09-191; WC Docket No. 07-52; GN Docket No. 11-121

Dear Mr. Chairman and Commissioners:

Last week, Chairman Genachowski emphasized the critical need to put consumers first in reforming universal service and intercarrier compensation. The Coalition proposing the America's Broadband Connectivity Plan ("ABC Plan") agrees wholeheartedly. The consumer benefits that will result from the ABC Plan are significant and real:

Benefits of Modernizing Universal Service for a Broadband Era

- Consumer surplus gains approaching \$1 billion per year.
- At least 4 million households get access to broadband when it otherwise would not be available, half of which will get broadband for the first time.
- Universal service support enabling 225,000 new jobs and a nearly \$20 billion increase in Gross Domestic Product per year.
- Untold increases in economic development, education, healthcare, and social interactions from increased broadband deployment.
- No increase to universal service contributions.

Benefits of Reforming Intercarrier Compensation for a Broadband Era

- Consumer surplus gains approaching \$9 billion per year.

- The Phoenix Center recently concluded that based on historical evidence, the proposed reductions in access rates will likely reduce consumers' out-of-pocket expenses, and consumers will also benefit in collateral ways.
- Due to less arbitrage and intercarrier disputes, improved wireline and wireless services and more widespread deployment of innovative technologies.

We write today to emphasize our support for the Chairman's focus on consumers. This letter underscores how consumers will benefit from the comprehensive, interrelated reforms in the ABC Plan. We also address unfounded criticisms of the Plan and show that they ignore the data on the record as well as historical evidence. In particular, criticisms of increased pricing flexibility fail to acknowledge that only four out of ten households still purchase wireline voice service from the incumbent local exchange carriers that would receive pricing flexibility and temporary access replacement support, which highlights the extent to which vibrant competition protects consumers today.¹ In total, line losses to wireless carriers, VoIP providers, and other competitors have taken a severe toll on ILECs' standing in the overall marketplace for voice services: "Between 2003 and 2010, telcos' voice market share went from 80% to 40%."²

It is important to note that the reason that the ABC Plan can provide its bevy of consumer benefits is that it links universal service reform with intercarrier compensation reform. This holistic approach to modernizing two archaic, intertwined systems is the source of the benefit. Either one done independently would not produce the benefits to consumers we outline below.

CONSUMERS WILL BENEFIT FROM THE ABC PLAN'S USF REFORMS

4 million households get access to broadband. The ABC Plan will accelerate broadband deployment to rural and high cost areas. The ABC Plan will provide at least *four million homes with broadband access* that would not otherwise have it; two million of those households will see access to broadband for the first time.³ The entire nation will enjoy the benefits of connecting these homes with untold new opportunities for economic development, education, healthcare, and social interactions.

¹ Jessica Reif Cohen et al., Bank of America/Merrill Lynch, *Battle for the Bundle: Back in Black*, at 10 (Mar. 11, 2011).

² Timothy Horan et al., Oppenheimer & Co., *Communications Services Poised To Outperform*, at 6 (July 6, 2011). Other analysts cite similar figures, noting that, today, of "112 million occupied US households, only 60% have a wireline voice connection," and within that category, "[t]elco voice declined to around 47.7 million wireline subs, or 43% of all US households." Jason Bazinet et al., Citi Investment Research & Analysis, *Video, Data, & Voice Distribution*, at 6 & Figure 8 (May 13, 2011) (emphasis added).

³ See Letter from Robert W. Quinn, Jr., AT&T; Steve Davis, CenturyLink; Michael T. Skrivan, FairPoint; Kathleen Q. Abernathy, Frontier; Kathleen Grillo, Verizon; and Michael D. Rhoda, Windstream; to Chairman Julius Genachowski, Commissioner Michael Copps, Commissioner Robert McDowell, and Commissioner Mignon Clyburn, FCC, CC Docket Nos. 96-45, 96-98, 99-68, 99-200, 01-92; WC Docket Nos. 03-109, 04-36, 05-337, 06-122, 07-135, 10-90; GN Docket No. 09-51, at 1 (filed July 29, 2011) ("ABC Plan" or "the Plan").

Thousands of new jobs and nearly \$20 billion growth in GDP. The broadband deployment enabled by the ABC Plan will drive significant economic activity in both the near-term as networks are built out and over the long-term. By expanding broadband availability and enabling greater adoption, the Plan will produce new efficiencies and investment. According to a study by the Brookings Institution, every percentage point of fixed broadband penetration per capita supports an increase in employment of 0.2 percent to 0.3 percent.⁴ Assuming long-term adoption rates among the four million locations in supported areas under the ABC Plan are similar to the current national rate, the long-term growth in the national per capita penetration rate would be approximately 0.46 percentage points.⁵ Attributing half of that amount to upgraded areas, *the Plan would support approximately 225,000 jobs and nearly \$20 billion in Gross Domestic Product (GDP).*⁶

Rural Americans alone to see consumer surplus gains of \$1 billion. Broadband availability in supported areas means rural adopters will receive benefits otherwise unavailable to them today. Economists commonly measure this benefit as “consumer surplus,” which is the aggregate economic value consumers receive beyond the prices they paid. In addition to any consumer surplus benefits arising out of intercarrier compensation reform (see below), broadband access under the ABC Plan will generate enormous benefits for new rural broadband consumers. A study of consumer surplus indicates an approximate annual benefit per broadband subscriber of \$250-\$350 compared to dial-up Internet, and \$350-\$475 compared to no Internet at all.⁷ Assuming adoption rates similar to the current national rate and a large portion of new broadband adopters migrating from dial-up Internet, *the long run annual consumer surplus accruing to adopters in supported areas could be as much as \$700 million to \$1 billion per year.*⁸ Moreover, other broadband subscribers will benefit from the ability to use the Internet to interact with those who currently lack robust access today.

No increase in USF surcharges. A key component of the ABC Plan is fiscal restraint. The Plan will benefit all consumers by ensuring that USF contribution charges on their monthly bills will not increase as a result of USF reform.

CONSUMERS WILL BENEFIT FROM THE ABC PLAN’S ICC REFORMS

\$9 billion increase in consumer welfare. The ABC Plan proposes to rationalize the intercarrier compensation regime by reducing existing per minute charges to a uniform default rate of \$0.0007 for terminating traffic exchanged with the public switched network. If done correctly, consumers will see enormous benefits from this reform. Applying the intercarrier rate

⁴ Robert Crandall, William Lehr, and Robert Litan, Brookings Institution, *The Effects of Broadband Deployment on Output and Employment: A Cross-Sectional Analysis of U.S. Data*, Issues in Economic Policy, No. 6, at 2 and 9 (July 2007), <http://www.brookings.edu/views/papers/crandall/200706litan.pdf>.

⁵ America’s Broadband Connectivity Plan, *The Broadband Benefits of the ABC Plan*, <http://americasbroadbandconnectivity.org/2011/10/the-broadband-benefits-of-the-abc-plan/>.

⁶ *Id.*

⁷ *See id.* (citing Mark Dutz, Jonathan Orszag, and Robert Willig, Compass Lexecon, *The Substantial Benefits of Broadband Connectivity for U.S. Households* (July 2009)).

⁸ *Id.*

reductions in the ABC Plan, MIT Economics Professor Jerry Hausman demonstrates carriers will pass through their intercarrier compensation savings to customers in the form of lower rates, investment in improved services and service quality, wider deployment of innovative technologies, or all of these things.⁹ Professor Hausman quantified those consumer surplus gains, finding them to be worth *nearly \$9 billion per year*.¹⁰ Not a single critic of the Plan has succeeded in debunking Professor Hausman's expert analysis. Opponents of the Plan have not offered competing economic analysis (expert or otherwise) and cite no academic work to refute what is now accepted in the industry: consumers benefit most from market-based pricing and targeted, explicit subsidies in areas that would not be economical to serve without support.

More bang for consumers' wireless buck. Consistent with ABC Plan proposals, history shows that rational reductions in the intercarrier compensation system, when accompanied by new explicit support, bring consumers significant benefits. Consumers benefited from reductions in price and increases in the quality of wireless service following the Commission's decisions reducing the intercarrier compensation rate for wireless traffic.¹¹ Professor Hausman found that decreases in those rates from 1996 through 2001 led to significant reductions in retail wireless rates paid by consumers.¹² Data submitted by CTIA in this proceeding likewise show that the price index for wireless services has fallen by 40 percent since December 1997, and that wireless carriers' average revenue per minute has fallen from nearly 50 cents in 1996, to less than 5 cents in 2010.¹³ Access rate reductions also facilitated wireless carriers' ability to offer innovative pricing plans, such as the elimination of roaming charges, the emergence of "any distance" plans, free night and weekend calling, rollover minutes, free calls within designated circles of individuals, and prepaid calling plans.¹⁴

Following reforms, wireless carriers have also invested heavily in their networks to improve service quality: in December 2010, wireless carriers' cumulative capital expenditures were nine times greater than they were in December 1996.¹⁵ Professor Hausman concludes that, given the degree of competition among wireless carriers, any intercarrier compensation rate decreases will most likely be passed through to consumers in lower prices and increased investment and innovation.¹⁶

⁹ ABC Plan, Attachment 4, Professor Jerry Hausman, *Consumer Benefits of Low Intercarrier Compensation Rates* (July 25, 2011) ("Hausman Paper").

¹⁰ *See id.* at 13.

¹¹ *See* Letter from Scott K. Bergmann, CTIA – The Wireless Association, to Marlene H. Dortch, FCC, WC Docket Nos. 10-90, et al. (Sept. 29, 2011) ("CTIA September 29, 2011 Ex Parte").

¹² *See* Hausman Paper at 5-6.

¹³ CTIA September 29, 2011 Ex Parte at 3-5.

¹⁴ *See id.* at 5.

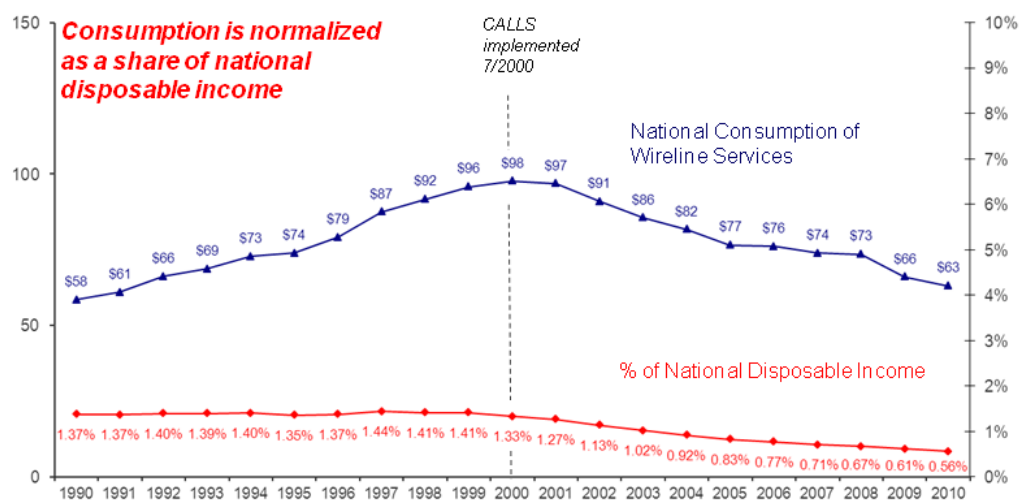
¹⁵ *See id.* at 6 (citing *Cumulative Capital Investment Passes \$310 Billion*, 2011 CTIA Semi-Annual Wireless Survey, <http://www.ctia.org/advocacy/research/index.cfm/AID/10316>).

¹⁶ *See* Hausman Paper at 2, 8-9.

More bang for consumers' wireline buck. Consumer spending on fixed voice services declined following previous intercarrier compensation reforms. From 2000 to 2010, real, inflation adjusted consumer spending on these long distance services (including cable VoIP services) fell by 56 percent.¹⁷ An analysis by USTelecom also shows that total consumer expenditures on wireline services declined following the last major reform in 2000 and in the face of intense new competition from intermodal providers. Average wireline expenditure fell from \$98 in 2000 to \$63 in 2010, representing a drop of 1.33 percent of disposable income in 2000, to 0.56 percent in 2010.¹⁸

Wireline Consumption Has Declined in Total and as Share of Income

U.S. Personal Consumption Expenditures on Wireline Services (\$ billions)
and % of National Disposable Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis and USTelecom Analysis.



The most recent expert analysis of all these data and the specific intercarrier compensation proposals in the ABC Plan confirms that consumers indeed win big with the Plan. Dr. George Ford of the Phoenix Center recently concluded that the ABC Plan will likely lead to

¹⁷ See Bureau of Economic Analysis, U.S. Dep't of Commerce, Real Personal Consumption Expenditures by Type of Product, Quantity Indexes, at Table 2.4.3U (published Aug. 29, 2011); see also Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, at Table 1.15 (2008) (average revenue per minute for interstate toll declined 33 percent, from \$0.09 in 2000 to \$0.06 in 2006).

¹⁸ See Letter from Jonathan Banks, USTelecom, to Marlene Dortch, FCC, WC Docket No. 10-90, et al., at Attachment (Oct. 5, 2011).

lower out-of-pocket expenses for consumers.¹⁹ Dr. Ford estimates that, based on historical evidence, each customer could save approximately \$14 per year if the proposed reductions in access rates are fully implemented, resulting in a collective consumer savings of approximately \$1.4 billion per year on traditional voice services.²⁰ According to Dr. Ford's analysis, *following past access charge reform, customers paid about \$8 less per line, per month in interstate access charges.*²¹ Moreover, Subscriber Line Charge (SLC) increases have been modest,²² and consumers realized other, collateral benefits. "If the past is a useful guide, then we should expect adoption of the ABC Plan to favor the typical customer by further reducing inefficient cross-subsidies and reducing out-of-pocket expenses for telephone service."²³

CRITICISMS THAT THE ABC PLAN HURTS CONSUMERS GET IT WRONG

Critics of the ABC Plan's ICC reforms have focused on just one or two aspects of the comprehensive ABC proposal – in particular, allowing some of incumbent carriers the ability to recover a portion of their lost intercarrier revenue through a temporary access recovery mechanism (ARM) and granting carriers modest pricing flexibility with respect to the SLC. Such a myopic view ignores the huge benefits to consumers from the overall Plan.

Reasonable access revenue replacement recovery is essential to ensuring that broadband providers in rural areas are able to sustain and expand their offerings. For some carriers, the significant intercarrier payment reductions called for in the ABC Plan would not be tolerable without the opportunity to recover some of that revenue through a temporary ARM, SLC increases, and new opportunities for broadband-focused universal service support. Every major intercarrier compensation reform proposal for more than a decade has included an access recovery fund. The *CALLS Order*, for example, led to the current Interstate Access Support program, and additional ICC reforms for rate of return carriers led to the Interstate Common Line Support program.

It is important to understand that the carriers that will receive temporary ARM funding and permission to implement modest SLC increases are the same companies the Commission needs to rely on for sustaining and expanding efficient broadband deployments in high-cost areas. Providing these carriers with a glide path to help offset intercarrier compensation reductions is essential to achieve the Commission's broadband objectives. It will be impossible for some of these carriers to maintain their current broadband offerings and push broadband further out to rural Americans if they do not have adequate time to adjust to new funding models and the opportunity to receive new broadband-focused universal service support.

¹⁹ See George S. Ford, Phoenix Center for Advanced Legal & Economic Public Policy Studies, *On the Road to More Efficient Pricing of Telecommunications Services: A Look at the Evidence*, Phoenix Center Policy Perspective No. 11-06 (Oct. 5, 2011), <http://www.phoenix-center.org/perspectives/Perspective11-06Final.pdf>.

²⁰ *Id.* at 2, 4.

²¹ *Id.* at 4.

²² *Id.*

²³ Phoenix Center Press Release, *Historical Data Reveal That Consumers Could Save \$1.4 Billion Per Year If FCC Adopts the America's Broadband Connectivity ("ABC") Plan* (Oct. 5, 2011), <http://www.phoenix-center.org/perspectives/Perspective11-06PressReleaseFinal.pdf>.

History proves this out. Much of the existing broadband deployment by incumbent carriers has been possible only because of a combination of implicit and explicit support. The Commission has recognized that “some companies receiving High-Cost support have deployed broadband-capable infrastructure” and has noted that the high cost program supports components of a network that can be used to provide both voice and broadband service.²⁴ Without reasonable access revenue replacement opportunities, the Commission runs the risk of losing, not gaining, ground with broadband deployment.

Modest SLC flexibility also is crucial to the consumer benefits provided by intercarrier compensation reforms. Every major intercarrier compensation reform proposal for more than a decade has also included some adjustment to the SLC. That is because policymakers have continually recognized that shifting from per minute, usage-based carrier charges to end user monthly charges benefits consumers.

The Commission, some state commissions, and the National Broadband Plan have all acknowledged that this is a necessary component of reform. Historical regulation has resulted in some areas having retail rates for local telephone service that are overly subsidized and are simply too low. Indeed, the National Broadband Plan recognizes that “permit[ing] gradual increases in the subscriber line charges” – and even “deregulating the SLC in areas where states have deregulated local rates” – is the right way to “offset the impact of decreasing ICC revenues.”²⁵ For example, in the *CALLS Order*, the Commission noted that, as far back as 1983 it had adopted the “goal of having price cap LECs recover a large share of their NTS common line costs from end users who cause them instead of carriers, and to recover these costs on a flat-rated, rather than a usage-sensitive, basis.”²⁶

Likewise, in their recent reform proposal, the state members of the Joint Board recognized that “some reductions” to existing intercarrier compensation rates “would be desirable,” with “increase[s] [in] SLC rates,” although only “up to the current SLC caps,” as the appropriate way to “compensate for those [revenue] losses.”²⁷ In multiple contexts, state commissions have also recognized the consumer benefits of a system where companies derive the bulk of their revenues from end user charges, even if that requires an increase in those charges.²⁸

²⁴ FCC, *Connecting America: The National Broadband Plan*, at 141 (Mar. 2010) (“National Broadband Plan”).

²⁵ *Id.* at 148.

²⁶ Report and Order, *Access Charge Reform*, 15 FCC Rcd 12962, ¶ 77 & n.121 (2000) (“*CALLS Order*”) (citing *1983 Access Charge Order*, 93 F.C.C.2d at 264-65, 278).

²⁷ Comments by State Members of the Federal State Joint Board on Universal Service, *Connect America Fund*, WC Docket No. 10-90 et al., at 153-155 (May 2, 2011).

²⁸ See, e.g., Order Adopting Regulations and Requiring Report, *Consideration of Modifying Alaska Access Charge Policies and the Use of the Alaska Universal Service Fund To Promote Universal Service in Alaska*, R-08-3, Order No. 8, R-09-3, Order No. 4, at 13 (Alas. Reg. Comm’n Aug. 18, 2010); Decision Granting Intervenor Compensation to The Utility Reform Network for Substantial Contributions to Decision (D.) 04-12-022, D.06-04-071, and D.07-12-020, *Order Instituting Rulemaking To Review Policies Concerning Intrastate Carrier*

Following this guidance, the ABC Plan provides wireline companies with the opportunity to replace some of their lost intercarrier compensation revenues through modest increases in SLCs (up to \$30 residential rate benchmark that includes local rates and interstate SLC, and not any further). This allows companies to recover costs directly from that company's end users rather than indirectly from other consumers through intercarrier payments.

It is lost in the debate that the ABC Plan provides companies with *flexibility* to increase SLC charges; in some cases, carriers may not be able to raise rates without losing customers to competitors. SLCs are primarily charged by wireline local exchange carriers, not by their competitors such as cable companies, wireless companies and VoIP providers. It is far from clear that competitive pressures will allow these wireline companies to increase charges without losing even more customers to cable companies, wireless providers, and VoIP providers than they do today.

And some of the poorest customers will be immune from any increase in end user rates. As of December 2010, nearly 30 percent of households had "cut the cord," abandoning their wireline phones altogether for wireless phones.²⁹ This is especially true of the poorest customers; nearly 43 percent of adults below the poverty line had cut the cord as of December 2010.³⁰ Again, those wireless customers do not pay a SLC at all and would be immune from any SLC increase. In addition, the Commission's existing Lifeline rules ensure that low income consumers are fully insulated from any SLC increases. The entire amount of the SLC is subsidized by the Universal Service Fund under Lifeline program rules.³¹

* * *

Access Charges, Decision 08-06-019, Rulemaking 03-08-018, at 2 (Cal. Pub. Utils. Comm'n June 13, 2008); Order Approving Settlement Agreement, *Union Telephone Company Tariff Filing To Modify Intrastate Charges and Basic Monthly Service Charges*, DT 06-171, Order No. 24,753, at 10-11 (N.H. Pub. Utils. Comm'n May 25, 2007); Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings, *Proceeding on Motion of the Commission To Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services*, Case 05-C-0616, at 64 (N.Y. Pub. Serv. Comm'n Apr. 11, 2006).

²⁹ See Stephen Blumberg & Julian Luke, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey*, at Table 1 (June 8, 2011), <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201106.pdf>.

³⁰ See *id.* at Table 2.

³¹ See 47 C.F.R. § 54.403(a)(1).

The right path forward is clear: the ABC Plan will create enormous benefits to consumers. We urge you and the other Commissioners to look past rhetoric and to examine the data and the facts in the record and to adopt the universal service and intercarrier compensation reforms in the ABC Plan. We look forward to working with you and the industry as we approach the Commission's open meeting on October 27.

Sincerely,

/s/ Robert W. Quinn, Jr.

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